

NINE-MONTHS-REPORT

OCTOBER 1, 2003 THROUGH June 30, 2004



At A Glance

EUR million US-GAAP, unaudited	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03	Q 3 2003/2004 1.4.04 – 30.6.04	Q 3 2002/2003 1.4.03 – 30.6.03
Revenue	323.2	305.2	119.5	110.5
EBIT	65.4	32.8	26.7	15.8
EBITDA	103.2	72.8	39.2	27.7
Net income	30.1	8.1	14.0	5.4
Depreciation of plant and equipment, rental equipment and capital lease	29.4	30.0	9.6	9.3
Capital expenditure (plant and equipment, rental equipment and capital lease)	31.2	40.2	8.5	11.3
Operating cash flow ¹	72.1	61.4	--	--
Total assets	541.6	561.7	--	--
Shareholders' equity	156.7	119.1	--	--
Equity ratio (in %)	28.9	21.2	--	--

¹ As of 2002/2003, losses/gains on sale of fixed assets are shown separately.

	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03
Number of homes serviced (million)	6.7	6.7
Number of installed devices (million)	36.9	36.7
Germany	28.2	28.1
International	8.7	8.6
Customers	609,491	606,912
Employees ¹	2,158	2,358

¹ excluding commercial representative offices in Germany

The Techem Share

During the period under review, October 1, 2003 through June 30, 2004, the Techem share price increased by 41,3% (Xetra closing price as at June 30, 2004: EUR 21.20). During the same period, the DAX rose by 21.7% and the MDAX by 28.2%.

Revenue

In the third quarter 2003/2004 revenue achieved EUR 119.5 million (previous year: EUR 110.5 million).

Revenue rose by 5.9% from EUR 305.2 million in the first nine months 2002/2003 to EUR 323.2 million in the same period 2003/2004. The core business area Energy Services contributed EUR 278.2 million (an increase of 4.5%), the business areas Energy Contracting EUR 37.5 million (an increase of 24.2%), IT Services EUR 5.3 million (a decrease of 3.6%) and Others EUR 2.2 million (a decrease of 31.3%).

The decline in the business area IT Services in fiscal year 2003/2004 is mainly due to the absence of the revenues generated by HausPerfekt (previous year: EUR 0.7 million), as the share in that company was sold in April 2003.

Revenue by business area

EUR million	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03	Q 3 2003/2004 1.4.04 – 30.6.04	Q 3 2002/2003 1.4.03 – 30.6.03
Energy Services	278.2	266.3	104.7	99.0
Energy Contracting	37.5	30.2	12.2	9.2
IT Services	5.3	5.5	1.6	1.5
Others	2.2	3.2	1.0	0.8
Total	323.2	305.2	119.5	110.5

In the core business area Energy Services revenue stems from the following four revenue pillars:

Revenue Energy Services

EUR million	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03	Q 3 2003/2004 1.4.04 – 30.6.04	Q 3 2002/2003 1.4.03 – 30.6.03
Billing services	142.1	133.5	58.4	56.7
Equipment rental	87.3	80.5	30.4	27.1
Equipment sales	29.2	34.0	9.2	9.1
Maintenance	19.6	18.3	6.7	6.1
Total	278.2	266.3	104.7	99.0

In the most important region Germany, the business area Energy Services achieved the following revenue:

Revenue Energy Services Germany

EUR million	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03	Q 3 2003/2004 1.4.04 – 30.6.04	Q 3 2002/2003 1.4.03 – 30.6.03
Billing services	122.1	112.7	51.1	48.5
Equipment rental	85.0	79.5	29.6	26.7
Equipment sales	14.8	15.5	4.5	4.7
Maintenance	18.9	17.9	6.4	6.0
Total	240.8	225.6	91.6	85.9

International Revenue

Revenue from international business in the first nine months decreased by 10.1% from EUR 45.5 million in 2002/2003 to EUR 40.9 million in 2003/2004. Thereof EUR 14.3 million were generated in the third quarter 2003/2004. In the first nine months 2003/2004 the Eastern European markets contributed EUR 13.9 million to international revenue (a decrease of 29.8%). Western Europe (excluding Germany) achieved EUR 27.0 million (an increase of 5.1%).

The disproportionately high increase of revenue in Eastern Europe that had been posted in the past was mainly due to developments in Bulgaria. On the Bulgarian market, sales of heat cost allocators dominated our revenue. This market has largely reached a saturation point now – with Techem having acquired a high market share. As no new international markets could be developed until now, we still see the decline in revenue already reported since the first quarter of the fiscal year 2003/2004.

Revenue Eastern/Western Europe (excluding Germany)

EUR million	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03	Q 3 2003/2004 1.4.04 – 30.6.04	Q 3 2002/2003 1.4.03 – 30.6.03
Western Europe (excluding Germany)	27.0	25.7	9.1	9.4
Eastern Europe	13.9	19.8	5.2	5.0
Total	40.9	45.5	14.3	14.4

EBIT

For the period October 1, 2003 through June 30, 2004, EBIT amounted to EUR 65.4 million, representing a year-on-year increase of 99.4% compared to the previous year's EUR 32.8 million. The third quarter 2003/2004 accounted for EUR 26.7 million (previous year: EUR 15.8 million).

Net Income

In the first nine months of fiscal year 2003/2004, net income amounted to EUR 30.1 million (previous year: EUR 8.1 million), representing an increase of 271.6%. The third quarter 2003/2004 contributed with EUR 14.0 million (previous year: EUR 5.4 million).

Capital Expenditure

In the first nine months 2003/2004, group capital expenditure amounted to EUR 39.4 million (previous year: EUR 44.5 million). In the third quarter 2003/2004, capital expenditure amounted to EUR 11.5 million (previous year: EUR 12.4 million).

Capital expenditure consisted of:

EUR million	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03	Q 3 2003/2004 1.4.04 – 30.6.04	Q 3 2002/2003 1.4.03 – 30.6.03
Financial assets	0.1	0.1	0.0	-0.1
Rental equipment	22.7	27.3	6.8	8.0
Capital lease*	0.1	5.0	0.1	1.8
Property, plant and equipment	8.4	7.9	1.6	1.5
Intangible assets	8.1	4.2	3.0	1.2
Total	39.4	44.5	11.5	12.4

* The leased assets mainly comprise fixed assets that were acquired in connection with the move to the new Techem building.

Business Areas

Energy Services

Measuring and billing of energy and water as well as equipment sales, rental and maintenance of devices; Home Automation

Installed base (installed, invoiced and billed devices)

As at June 30, 2004, Techem provided services to about 609,000 customers with 6.7 million apartments spread across Europe. About 36.9 million meter readings were taken by our employees in order to issue consumption-based bills.

Installed base Europe

Devices in million	June 30, 2004	June 30, 2003
Radio-controlled devices	4.2	2.9
Electronic devices	12.6	12.9
Water meters	6.7	6.7
Evaporators	13.4	14.2
Total	36.9	36.7

The share of radio-controlled devices in the installed base Europe as at June 30, 2004 was 11.4% (June 30, 2003: 7.9%).

Installed base Germany

Devices in million	June 30, 2004	June 30, 2003
Radio-controlled devices	4.0	2.8
Electronic devices	9.3	9.8
Water meters	5.9	5.9
Evaporators	9.0	9.6
Total	28.2	28.1

The share of radio-controlled devices in the installed base Germany as at June 30, 2004 was 14.2% (June 30, 2003: 10.0%).

Equipment sales (invoiced devices, not yet billed)

Equipment sales in Europe for the first nine months 2003/2004 amounted to about 2.2 million devices, compared to 2.6 million units for the first nine months of 2002/2003. In the same period, about 1.8 million devices were sold in Germany, compared to roughly 2.0 million devices in the first nine months of fiscal 2002/2003.

In Germany, the drop in sales is primarily due to the fall in the number of new construction projects completed as well as to a temporary decrease in the volume of units exchanged in connection with the transition from 8-year to 10-year contracts in the case of heat cost allocators.

Sales for the first nine months of 2002/2003 outside Germany had been driven by the first-time equipping of the Bulgarian market with heat cost allocators. As this process has been largely completed now, sales during current fiscal 2003/2004 are on the decline.

Equipment sales Europe

Devices in million	Q1-3 2003/2004 1.10.03 – 30.6.04	Q1-3 2002/2003 1.10.02 – 30.6.03
Radio-controlled devices	0.9	0.9
Electronic devices	0.6	0.8
Water meters	0.6	0.7
Evaporators	0.1	0.2
Total	2.2	2.6

The share of radio-controlled devices in equipment sales Europe as at June 30, 2004 was 40.9% (June 30, 2003: 34.6%).

Equipment sales Germany

Devices in million	Q1-3 2003/2004 1.10.03 – 30.6.04	Q1-3 2002/2003 1.10.02 – 30.6.03
Radio-controlled devices	0.8	0.9
Electronic devices	0.3	0.4
Water meters	0.6	0.6
Evaporators	0.1	0.1
Total	1.8	2.0

The share of radio-controlled devices in equipment sales Germany as at June 30, 2004 was 44.4% (June 30, 2003: 45.0%).

Since introduction, 876,390 households (previous year: 691,918) have been equipped with the radio-controlled system. The number of delivered radio-controlled devices was 5.1 million as at June 30, 2004. The variation in the numbers of delivered and installed devices of 0.9 million is caused by a time lapse in billing.

Rental and maintenance of devices

The rental contracts cover a base comprising of 13.4 million devices (previous year: 12.8 million devices), which corresponds to 47.5% of 28.2 million devices installed in Germany. 4.7 million devices with maintenance contracts (previous year 4.5 million devices) represent 16.7% of the installed base in Germany.

Outside Germany, rental and maintenance contracts are only being offered in Austria and Switzerland at present and on a modest scale.

Energy Contracting

The supplying of heat, cold and electricity under contracting agreements; modular range of services from planning, financing and installation to the operation of energy-producing facilities, including maintenance, conservation and the billing of consumption.

As at June 30, 2004, 694 heating supply contracts (June 30, 2003: 629) represented a thermal connection capacity of approximately 450 Megawatts.

IT Services

Software-based applications for the housing industry.

Around 300 customers are working with the software wodis thereby servicing more than one million residential and commercial property units.

Outlook

Based on today's information, the Techem Group expects for fiscal year 2003/2004 an organic revenue of between EUR 430 and 432 million.

As a result of the Group's EBIT for the first six months 2003/2004 Techem has already increased the Group's EBIT target for the full fiscal year to EUR 74 to 77 million.

Net debt as at the end of the fiscal year 2003/2004 should now amount to about EUR 235 to 240 million.

**Techem AG, Consolidated Balance Sheet
(U.S. GAAP, unaudited)**

Assets in KEUR	June 30, 2004	June 30, 2003	Sept. 30, 2003
Cash and cash equivalents	15,800	17,989	16,038
Trade accounts receivable	43,127	54,198	38,200
Unbilled receivables	112,619	102,978	110,993
Accounts receivable due from other group companies	0	0	25
Other receivables	11,088	10,755	8,979
Total accounts receivable	166,834	167,931	158,197
Inventories	24,458	32,283	26,243
Deferred tax assets	1,585	800	2,042
Other current assets	1,101	3,107	881
Total current assets	209,778	222,110	203,401
Financial long-term assets	16	1,122	1,052
Accounts receivable, long-term	7,373	7,644	6,284
Total financial assets	7,389	8,766	7,336
Rental equipment	135,180	137,157	137,200
Capital lease	6,630	9,213	8,780
Property, plant and equipment	45,822	47,195	44,541
Total fixed assets	187,632	193,565	190,521
Intangible assets	125,129	127,916	125,080
Deferred tax assets	11,695	9,384	13,683
Total assets	541,623	561,741	540,021

The accompanying notes are an integral part of these financial statements.

**Techem AG, Consolidated Balance Sheet
(U.S. GAAP, unaudited)**

Liabilities and Shareholders' Equity in KEUR	June 30, 2004	June 30, 2003	Sept. 30, 2003
Trade accounts payable	15,103	6,840	9,687
Bank overdrafts and borrowings	54,043	39,226	35,004
Progress payments	820	857	1,214
Accounts payable due from group companies	0	329	216
Capital lease obligations, current portion	2,736	2,821	2,945
Other current liabilities	17,781	17,685	28,589
Tax accruals	17,416	16,112	8,091
Other accrued expenses	36,170	41,034	37,495
Deferred tax liabilities	844	1,270	809
Other deferred items	844	826	814
Total current liabilities	145,757	127,000	124,864
Bank loans	182,732	260,601	233,341
Capital lease obligations, less current portion	4,159	6,574	6,062
Pension accruals	12,304	12,849	12,257
Other accrued expenses	33,043	25,736	26,852
Deferred tax liabilities	6,016	3,610	7,030
Other deferred items	549	2,957	592
Total non-current liabilities	238,803	312,327	286,134
Total liabilities	384,560	439,327	410,998
Minority interest	325	3,274	3,068
Share capital	24,681	24,681	24,681
Additional paid-in capital	60,278	59,711	59,711
Retained earnings	72,354	35,714	42,269
Accumulated other comprehensive income / -loss	-575	-966	-706
Total shareholders' equity	156,738	119,140	125,955
Total liabilities and shareholders' equity	541,623	561,741	540,021

The accompanying notes are an integral part of these financial statements.

**Techem AG, Consolidated Statement of Income
(U.S. GAAP, unaudited)**

in KEUR	Q 1-3 2003/04 1.10.03 – 30.6.04	Q 1-3 2002/03 1.10.02 – 30.6.03	Q 3 2003/04 1.4.04 – 30.6.04	Q 3 2002/03 1.4.03 – 30.6.03
Revenue	323,255	305,162	119,500	110,555
Cost of sales	135,330	125,670	53,100	42,983
Gross profit	187,925	179,492	66,400	67,572
Selling expenses	57,143	58,216	18,487	19,424
General and administrative expenses	57,362	75,466	19,598	27,830
Other operating income	6,435	5,831	2,324	1,678
Other operating expenses	11,049	16,609	2,710	5,472
Research and development	3,390	2,265	1,249	705
EBIT	65,416	32,767	26,680	15,819
Result from investments	-138	6	-23	-190
Interest income / -expense	-9,807	-12,479	-1,554	-4,019
Result before income tax (and minority interest)	55,471	20,294	25,103	11,610
Income tax	24,933	10,478	11,047	5,794
Result before minority interest	30,538	9,816	14,056	5,816
Minority interest	-452	-623	-74	-347
Net income before cumulative effects of changes in accounting principles	30,085	9,193	13,982	5,469
Net cumulative effects of changes in accounting principles (after tax)	0	1,077	0	0
Net income	30,085	8,116	13,982	5,469
Earnings per share (in EUR)				
EPS, basic	1.22	0.33	0.57	0.22
EPS, diluted	1.22	0.33	0.57	0.22
EBIT per share (in EUR)				
EBITPS, basic	2.65	1.33	1.08	0.64
EBITPS, diluted	2.65	1.33	1.08	0.64

The accompanying notes are an integral part of these financial statements.

Techem AG, Consolidated Statement of Cash Flow (U.S. GAAP, unaudited)

in KEUR	Q 1-3 2003/2004 1.10.03 – 30.6.04		Q 1-3 2002/2003 1.10.02 – 30.6.03	
Cash flows from operating activities				
Net income		30,085		8,116
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	37,799		40,056	
Deferred tax assets	1,449		1,304	
Unbilled receivables	-1,655		-751	
Allowance for doubtful accounts	-284		1,604	
Inventory reserve	369		417	
Change in pension and other long-term accruals	6,286		1,620	
Loss on sale of fixed assets	887		550	
Personnel expense relating to stock options	567		0	
Debt acquisition cost	629		0	
Income applicable to minorities	452	46,499	623	45,423
		76,584		53,539
Changes in operating assets and liabilities				
Accounts receivable, short-term	-6,689		3,665	
Inventories	1,416		-2,682	
Other current assets	-221		-2,145	
Accounts receivable, long-term	-1,099		-1,635	
Trade accounts payable	5,415		-5,540	
Progress payments	-394		-89	
Accounts payable due from group companies	-115		-462	
Other current liabilities	-10,808		-1,704	
Other accrued expenses	-1,325		13,171	
Tax accruals	9,325		5,438	
Deferred items	-13	-4,508	380	8,397
Net cash provided by operating activities		72,076		61,936
Cash flows from investing activities				
Investment net of cash acquired	-6,351		-139	
Change in minority interest	0		118	
Purchase of fixed and intangible assets	-36,181		-44,329	
Disposal of fixed and intangible assets	4,591		4,767	
Net cash used in investing activities		-37,941		-39,583
Cash flows from financing activities				
Increase / decrease in liquid funds from factoring of accounts receivable	0		5,823	
Changes in financing due to capital lease	-2,112		3,902	
Changes in bank loans: proceeds from borrowing	27,503		0	
Changes in bank loans: repayment of debt	-59,701		-27,700	
Dividends paid	-63		-145	
Net cash used in financing activities		-34,373		-18,120
Net change in cash and cash equivalents		-238		4,233
Net increase / -decrease in cash and cash equivalents		-238		4,233
Cash and cash equivalents at beginning of period		16,038		13,756
Cash and cash equivalents at end of period		15,800		17,989
Supplemental disclosures of cash flow information				
Cash paid on interest		9,531		10,196
Cash paid on income taxes		22,155		3,112

Techem AG, Consolidated Intangible and Fixed Assets

in KEUR	Acquisition cost					Ending balance 30.6.2004
	Beginning balance 1.10.2003	Current year additions	Change in consolidation	Re-allocations	Deletions	
I. Financial Assets						
1. Investments in affiliated companies	187	3				190
2. Long-term loans to affiliated companies	309					309
3. Investments at equity	1,289	106			-1,145	250
	1,785	109	0	0	-1,145	749
II. Fixed Assets						
1. Rent equipment	267,200	22,658		-6	-21,222	268,630
2. Capital lease	45,049	122			-41	45,130
3. Property, plant and equipment						
Property and plant	8,058				-2	8,056
Technical equipment	37,559	2,083		1,444	-167	40,919
Office equipment	40,146	5,649		215	-2,177	43,833
Work in progress	2,484	1,220		-1,692	-104	1,908
Subsidies	-3,556	-531				-4,087
	84,691	8,421	0	-33	-2,450	90,629
	396,940	31,201	0	-39	23,713	404,389
III. Intangible Assets						
1. Software and licences	61,176	3,411		-27	-33	64,527
2. Goodwill						
Energy Services	99,484			1,743		101,227
Energy Contracting	10,313					10,313
IT Services	12,209			-1,743		10,466
3. Other intangible assets	6,855	3,215				10,070
4. EDP software work in progress	610	1,465		66		2,141
	190,647	8,091	0	39	-33	198,744
	589,372	39,401	0	0	-24,891	603,882

The accompanying notes are an integral part of these financial statements.

Techem AG, Consolidated Intangible and Fixed Assets

in KEUR	Depreciation / Amortization					Net book value		
	Beginning balance 1.10.2003	Current year additions	Change in consoli- dation	Re- alloca- tions	Dele- tions	Ending balance 30.6.2004	June 30, 2004	Sept. 30, 2003
I. Financial Assets								
1. Investments in affiliated companies	184					184	6	3
2. Long-term loans to affiliated companies	309					309	0	0
3. Investments at equity	240	297			-297	240	10	1,049
	733	297	0	0	-297	733	16	1,052
II. Fixed Assets								
1. Rent equipment	130,000	21,953	0	0	-18,503	133,450	135,180	137,200
2. Capital lease	36,269	2,241	0	0	-10	38,500	6,630	8,780
3. Property, plant and equipment								
Property and plant	3,796	164				3,960	4,096	4,262
Technical equipment	13,538	2,056		-116	-47	15,431	25,488	24,021
Office equipment	23,518	3,182		116	-550	26,266	17,567	16,628
Work in progress	1				-1	0	1,908	2,483
Subsidies	-703	-147				-850	-3,237	-2,853
	40,150	5,255	0	0	-598	44,807	45,822	44,541
	206,419	29,449	0	0	-19,111	216,757	187,632	190,521
III. Intangible Assets								
1. Software and licences	29,326	7,548			-5	36,869	27,658	31,850
2. Goodwill								
Energy Services	29,018			266		29,284	71,943	70,466
Energy Contracting	6,177					6,177	4,136	4,136
IT Services	416			-266		150	10,316	11,793
3. Other intangible assets	630	505				1,135	8,935	6,225
4. EDP software work in progress	0					0	2,141	610
	65,567	8,053	0	0	-5	73,615	125,129	125,080
	272,719	37,799	0	0	-19,413	291,105	312,777	316,653

The accompanying notes are an integral part of these financial statements.

TECHEM AG, ESCHBORN
Notes to the Nine-Months-Report
October 1, 2003 through June 30, 2004

Note 1 – Basis of Presentation

The accompanying unaudited consolidated interim financial statements represent the accounts of Techem AG and its subsidiaries (“the Company” or „Techem Group”) as of June 30, 2004. The consolidated interim financial statements have been prepared in accordance with the United States Generally Accepted Accounting Principles („U.S. GAAP”). All amounts are stated in thousand Euro (KEUR) unless mentioned otherwise.

In the course of the consolidation all significant intra-group transactions have been eliminated. Individual prior period amounts have been reclassified to conform to current period presentation.

An interim report does not contain all information and notes to the accounts which are required for year-end reporting purposes; therefore it has to be read in conjunction with the audited consolidated financial statements as of September 30, 2003, which can be obtained from the annual report on the internet homepage of the Company.

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses as well as accompanying notes during the reporting period. Actual results may differ from these estimates.

The Board of Directors considers this quarterly report to provide all required information and adjustments for a fair presentation of the net assets, financial position and results of operations. The results of the first nine months of the current financial year do not necessarily indicate future results.

Corporate Governance

Pursuant to the German Stock Corporation Act , §161 AktG and §15 EG AktG, the Board of Directors and the Supervisory Board of Techem AG have declared to generally comply with the recommendations of the “German Corporate Governance Code” and have granted shareholders permanent access to this declaration on the Techem Group’s homepage.

Note 2 – Significant Accounting Policies

Recent Pronouncements

In December 2003, the Financial Accounting Standards Board (“FASB”) revised Statement of Financial Accounting Standard (“SFAS”) No. 132 “Employers’ Disclosures about Pensions and Other Postretirement Benefits”. It requires additional disclosures about assets, obligations, cash flows, and net periodic benefit cost of pension plans and other defined benefit postretirement plans. Additional information is disclosed in note 6 of this interim report.

Application of SFAS No. 132 (Revised) does not change the measurement of those plans.

Seasonal Influences

Revenue and the operating result of the Company are subject to predictable seasonal fluctuations, as Techem Group bills its customers for services rendered once a year.

Revenue from measuring and billing of energy and water consumption are mainly generated in the months of March, April and July. Until their invoicing billing services are accounted for as work in progress. Revenue on rental and maintenance contracts is accrued periodically throughout the year. Energy contracting revenue, to the extent that they relate to the energy component, are also accrued periodically throughout the year.

Changes in the Group of Companies Included in Consolidation

In the context of the restructuring of the Techem Group, the companies assisto Leasing, Techem International and Techem Development have been merged retrospectively with Techem Energy Services on October 1, 2003.

WIB has been merged retrospectively with Techem IT-Services on October 1, 2003.

In the current fiscal year, the shares of EL-ME and Techem Drecount Utility Service have been sold. Both companies were accounted for using the equity method. For further information please refer to note 3.

Status of the Project “Transition to IAS/IFRS”

The Group plans to publish its first consolidated financial statement in accordance with IAS/IFRS on September 30, 2004. The main differences between US GAAP and IAS/IFRS recognized so far relate to the following: assessment of long-term accruals, assessment and disclosure of pension obligations and the resulting actuarial gain/loss, accounting for revenue recognition of billings in process, accounting for stock options, business acquisitions and subsidies.

In connection with the transition to IAS/IFRS, the Company has started a project for optimizing and integrating the business structure of the profit and loss statements in its financial systems. This will not impact on EBIT.

Note 3 - Acquisition and Disposal of Investment

In the first nine months of financial year 2003/2004 the following changes in investment were made:

WIB Consult GmbH, Dortmund/Germany: On October 7, 2003 the Company acquired additional 12% of WIB Consult for a purchase price of KEUR 6 and now holds 100%.

Techem Messtechnik Ges.m.b.H., Innsbruck/Austria: On January 21, and May, 25, 2004, the Company acquired in each case additional 16.67% of the shares of Techem Messtechnik Ges.m.B.H. for a total purchase price of KEUR 6,345 and now holds 100%. Goodwill resulting from this transaction in the amount of KEUR 3,215 has been capitalized as other intangible asset consisting of established long-time customer relations. The valuation of these customer relations is based on expected future cashflows. The amortization period of the intangible asset amounts to ten years. Accumulated amortization expense in the first nine months of fiscal 2003/2004 was KEUR 126.

EL-ME AG, Au/Germany: On January 9, 2004, the Company sold its 25% share in EL-ME AG for KEUR 768. The loss resulting from this transaction amounts to KEUR 272, and is included in result from investments, as EL-ME was accounted for using the equity method.

Techem Drecount Utility Service GmbH, Dresden/Germany: On June 9, 2004, the Company sold its 50% share for KEUR 80. Since Techem Drecount Utility Service GmbH also has been accounted for using the equity method, the loss resulting from this transaction in the amount of KEUR 25 is accounted for as a result from investments.

Note 4 – Shareholders' Equity

Share Capital

The share capital amounts to EUR 24,681,139, representing 24,681,139 ordinary bearer shares.

Authorized Capital

The Board of Directors is authorized, subject to consent of the Supervisory Board, to increase the share capital of Techem AG until March 26, 2007, in one or more tranches, up to an aggregate amount not exceeding EUR 5,365,465, through the issuance of new shares against cash contribution or against contribution in kind. Under certain defined conditions and with the consent of the Supervisory Board, the Board of Directors may exclude the shareholders' pre-emptive rights.

Treasury Shares

The Board of Directors is authorized to repurchase shares of the Techem AG up to an amount of EUR 2,468,113. The repurchase can be executed in parts or in total, at one time or at various times. The authorization to repurchase own shares expires on September 18, 2005.

Other than selling the own shares, repurchased in the framework of this authorization, on the Stock Exchange, the Board of Directors, subject to consent of the Supervisory Board, is authorized to act as follows:

- a) in connection with the acquisition of or merger with a company, offer shares to a third party;
- b) withdraw shares from the market , while at the same time reducing share capital, without additional approval of a shareholders' meeting.

Stock Options

In January 2000 and March 2001 the Company introduced a stock option plan with conditional capital increase which provides for the granting of up to 2,046,340 shares of common stock to officers and key employees of the Techem Group. In the first quarter of financial year 2003/2004 a conversion plan of stock options into stock appreciation rights ("SARs", so called "phantom options") was initiated and has been finalized in the second quarter of financial year 2003/2004. Due to the conversion, the number of outstanding stock options has been reduced to 454,180. For further information on stock appreciation rights please refer to the respective paragraph below.

The Techem Group has adopted the disclosure provisions of SFAS No. 148 and No. 123, but opted to remain under the expense recognition provisions of the Accounting Principles Board's ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for options granted.

On June 30, 2004, at a share price of EUR 21.10, both independent exercise criteria of the third tranche of stock option plan I were met for the first time: increase of the Company's share price cumulated annually about at least 7% since the date of grant and equal or higher percentage increase or equal or less percentage decrease of the Company's share price in comparison with the M-DAX. Therefore 157,744 stock options were in-the-money. The personnel expense according to APB 25 is calculated using the intrinsic value of the stock options and amounted to KEUR 567 as at June 30, 2004. Contra-entry was the account "additional paid-in capital".

Both stock option plans are variable plans. If the compensation expense for these options had been determined in accordance with SFAS No. 123, i.e. based on their fair value at the grant dates, the Company's charge to income for the first three quarters of financial year 2003/2004 would have amounted to KEUR 237 before tax. As a result net income and earnings per share would have been reduced to the pro forma amounts shown below:

	Q 1-3 2003/2004 1.10.03 – 30.6.04
Net income (in KEUR)	
As reported	30,085
Expense from stock option plans, after tax	130
Pro forma	29,955
Earnings per share (in EUR)	
As reported	1.22
Pro forma	1.21

Stock Appreciation Rights (Phantom Options)

In the first quarter of financial year 2003/2004 the Techem Group has offered to the owners of stock options to convert their stock options to stock appreciation rights (SARs). The offer was accepted by the majority of stock option owners. The basis for assessment has been the amount of stock options received from the third tranche of stock option plan I, the conversion rate is 1 to 1.2. Furthermore additional SARs have been granted to certain key employees.

Techem Group applies APB No. 25 "Accounting for Stock Issued to Employees", which is also applicable to SARs pursuant to Financial Accounting Interpretations No. 28.2. According to this regulation, issuing SARs generally leads to personnel expense.

Stock Appreciation Rights provide the right to receive the appreciation in the fair market value of a number of shares over the exercise period, settled in cash and not in stock. Prerequisite for settlement is that the share price exceeds the exercise price.

	Q 1-3 2003/2004 1.10.03 – 30.6.04
SARs key information	
Number of SARs granted	448,261
Reference price in EUR	13.50
Exercise price in EUR	17.10
Vesting period	24 months
Expiry	60 months

As of June 30, 2004, personnel expense of KEUR 1,726 have been accrued for.

Distribution of earnings of Techem AG

The Techem AG's accumulated earnings amounting to KEUR 79,374 for financial year 2002/2003 are carried forward.

By-Election to the Supervisory Board

Mrs. Ursula Felten, resident in Frankfurt am Main, has been elected as the successor of Mr. Hans-Ludwig Grüşchow for the remainder of his service period.

Miscellaneous

In financial year 2003/2004, a dividend of KEUR 63 was distributed to minority shareholders of Veridis Software Systeme GmbH.

Note 5 – Contingent Liabilities

Contingencies due to bank guarantees exist on behalf of HausPerfekt GmbH & Co. KG in the amount of KEUR 345 (KEUR 447 on September 30, 2003).

There are no guarantee commitments towards EL-ME AG any more. The guarantee liability in favor of EL-ME AG in the amount of KEUR 125 (September 30, 2003: KEUR 1,116) has expired effective as of April 30, 2004. For further information please refer to note 3.

Management is not aware of any other items that could give rise to any other liabilities or that would have an adverse effect on Techem Group's net assets, financial position and results of operations.

Note 6 – Accruals

Pension Accruals

The Techem Group sponsors a pension plan covering members of the management of Techem AG and Techem Energy Services GmbH & Co. KG. Consistent with German practice, the pension plan is not funded.

The following table details net periodic pension cost of the respective periods:

KEUR	Q1-3 2003/2004 1.10.03 – 30.6.04	Q1-3 2002/2003 1.10.02 – 30.6.03
Service Cost	49	175
Interest Cost	477	858
Actuarial loss	24	127
Net periodic pension cost	550	1,160

Other Accruals

According to FASB Interpretation („FIN“) No. 45 „Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others“, a guarantor has to make provisions at the date of granting in the amount of the actual cash value of the guarantee. This applies to all guarantees issued or modified after December 31, 2002.

Techem grants a two years' warranty on its devices.

The accrual for warranty has developed as follows:

KEUR	Ending balance June 30, 2004	Change	Beginning balance October 1, 2003
Warranty reserve	1,792	987	805

In the third quarter of financial year 2003/2004 , Techem Group recognized a restructuring expense of KEUR 60. The accrual for restructuring has developed as follows:

KEUR	Ending balance June 30, 2004	Change	Beginning balance October 1, 2003
Accrual for restructuring	2,378	-5,234	7,612

Note 7 – Interest Income/Expense

KEUR	Q 1-3 2003/2004 1.10.03 – 30.6.04	Q 1-3 2002/2003 1.10.02 – 30.6.03
Interest income on installment sales	628	342
Interest income, other	252	935
Interest expense	-10,204	-12,047
Amortization of deferred capital procurement costs	-629	-
Gains / losses of financial instruments		
Trigger swap (unrealized)	-	-1,112
Constant maturity swap (unrealized)	146	-597
Total interest income/expense	-9,807	-12,479

Deferred capital procurement costs are expensed over the term of the financing contract of five years.

Note 8 – Income Tax

SFAS No. 109, “Accounting for Income Taxes”, requires to determine the expected tax rate for the current financial year for interim reporting purposes. Since the expected tax rate is calculated based on estimates and assumptions, it may differ from the actual rate.

Note 9 - Number of Employees

The number of employees amounted to 2,158 at June 30, 2004 compared to 2,358 at June 30, 2003.

Note 10 – Segment Reporting

The IT Services and Energy Contracting segments are not yet reported as separate operating segments of Techem Group according to SFAS No. 131.

Geographical Information for the first nine months of Financial Years 2003/2004 and 2002/2003

KEUR	Germany	International
Gross revenue Q1-3 2003/2004 by country of		
Origin	282,359	40,897
destination	281,170	42,086
Gross revenue Q1-3 2002/2003 by country of		
origin	259,693	45,469
destination	258,772	46,390

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